CERTIFICATE OF SERVICE

I, the undersigned, hereby certify that a true and correct copy of the foregoing *Direct Testimony* was electronically served this 14th day of November, 2022 to:

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/s/ Glenda Cafer
Glenda Cafer

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE: **CHATTANOOGA GAS COMPANY PETITION FOR APPROVAL OF AN ADJUSTMENT IN RATES AND TARIFF; THE TERMINATION OF THE AUA MECHANISM AND THE RELATED TARIFF CHANGES AND REVENUE DEFICIENCY RECOVERY; AND AN ANNUAL RATE REVIEW MECHANISM**	)))))))))))	**DOCKET NO. 18-00017**

DIRECT TESTIMONY

OF

DAVID DITTEMORE

July 3, 2018

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:	)	
	)	
CHATTANOOGA GAS COMPANY PETITION FOR APPROVAL OF AN ADJUSTMENT IN RATES AND TARIFF; THE TERMINATION OF THE AUA MECHANISM AND THE RELATED TARIFF CHANGES AND REVENUE DEFICIENCY RECOVERY; AND AN ANNUAL RATE REVIEW MECHANISM	)	**DOCKET NO. 18-00017**

AFFIDAVIT

I, David N. Dittemore, Financial Analyst, on behalf of the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Protection and Advocate Division.

David N. Dittemore

DAVID N. DITTEMORE

EMILY KNIGHT STATE OF TENNESSEE NOTARY PUBLIC DAVIDSON COUNTY My Commission Expires MAY 6, 2019

Sworn to and subscribed before me this 5th day of July, 2018.

Emily Knight

NOTARY PUBLIC

My commission expires: May 6, 2019

CONTENTS

ATTACHMENTS

Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION FOR THE RECORD.

A1. My name is David N. Dittemore. I am a Financial Analyst employed by the Consumer Protection and Advocate Division within the Office of the Tennessee Attorney General (Consumer Advocate). My business address is Office of the Tennessee Attorney General, UBS Tower, 315 Deaderick Street, Nashville, TN 37243.

Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND PROFESSIONAL EXPERIENCE.

A2. I received a Bachelor of Science Degree in Business Administration from the University of Central Missouri in 1982. I am a Certified Public Accountant licensed in the state of Oklahoma (#7562). I was previously employed by the Kansas Corporation Commission (KCC) in various capacities, including Managing Auditor, Chief Auditor, and Director of the Utilities Division. For approximately four years, I was self-employed as a Utility Regulatory Consultant representing primarily the KCC Staff in regulatory issues. I also participated in proceedings in Georgia and Vermont, evaluating issues involving electricity and telecommunications regulatory issues. Additionally, I performed a consulting engagement for Kansas Gas Service (KGS), my subsequent employer during this time frame. For eleven years, I served as Manager and subsequently Director of Regulatory Affairs for KGS, the largest natural gas utility in Kansas, serving approximately 625,000 customers. KGS is a division of One Gas, a natural gas utility serving approximately two million customers in Kansas, Oklahoma, and Texas. I joined the Office of the Tennessee Attorney General in September, 2017 as a Financial Analyst. In total, I have over thirty years' experience in the field of public utility regulation. I have presented testimony as an expert witness on numerous occasions. Attached as Exhibit 1 is a detailed vita of my professional background.

Q3. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION (TPUC)?

A3. Yes. I have submitted testimony in TPUC Docket Nos. 17-00014, 17-00108, 17-00138, 17-00124, and 17-00143.

Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A4. My testimony will support and address the Consumer Advocate's positions with respect to the attrition period Operating and Maintenance (O&M) Expenses,[1] Taxes Other than Income, Cash Working Capital, and Accumulated Deferred Income Tax (ADIT) balances, including the impacts of the Tax Cuts and Jobs Act (TCJA). I will also identify and discuss certain accounting concerns regarding cost allocation processes and make recommendations for enhancing the quality and transparency of these costs within regulatory filings. Finally, I will address how Chattanooga Gas Company (CGC or the Company) has not demonstrated it has in place sufficient controls over its cost allocation processes that would demonstrate the necessary practices and procedures for determining on-going O&M costs.

I. OVERVIEW OF THE SOUTHERN COMPANY

Q5. PLEASE PROVIDE AN OVERVIEW OF THE SOUTHERN COMPANY, INCLUDING THE AFFILIATES OF CGC.

A5. The Southern Company provides retail electricity and natural gas at the retail level to more than nine million customers. In addition to its regulated electricity and natural gas service, The Southern Company also engages in significant non-regulated operations. For example, The Southern Company conducts operations

[1] Consumer Advocate witness Mr. Hal Novak is sponsoring the adjustment to amortize rate case costs.

through affiliated entities in the areas of wholesale competitive power generation, digital communications, and investments in leveraged leases.

Q6. WHICH AFFILIATED ENTITY CONDUCTS RETAIL NATURAL GAS DISTRIBUTION OPERATIONS?

A6. The Southern Company's natural gas operations are conducted by Southern Company Gas (SCG). In July 2016, The Southern Company acquired the assets of SCG, the owner of AGL Resources Inc., which provides natural gas distribution service in seven states. Regulated natural gas operations within SCG include, but are not limited to, Virginia Natural Gas, Atlanta Gas Light Company, and Nicor Gas.

Q7. WOULD YOU PROVIDE A SENSE OF THE SCOPE OF SCG'S NON-REGULATED ACTIVITIES AND AFFILIATES?

A7. SCG also conducts a number of non-regulated commercial activities, including gas marketing, home protection services, gas storage, arbitrage activities, and mid-stream activities. In total there are 82 entities that operate within the SCG organization.[2] The entities do not include other Southern Company affiliates that are not within the SCG umbrella. Corporate services are provided within SCG by its affiliate, Atlanta Gas Service Company (AGSC).

In 2017, AGSC incurred costs in excess of $274 million that were charged to various SCG affiliates.[3] Of this amount, over $5.2 million was charged to CGC, representing approximately 40% of CGC's 2017 total non-purchased gas O&M costs.

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[2] Determined by counting the entities listed in Consumer Advocate Discovery Request No. 1-15.
[3] Response to Consumer Advocate Discovery Request No. 1-41.

II. ATTRITION PERIOD O&M COSTS

Q8. WHAT TEST PERIOD AND ATTRITION PERIOD IS THE CONSUMER ADVOCATE USING IN THIS CASE?

A8. As discussed in Mr. Novak's testimony, the Consumer Advocate is using the calendar year 2017 as the Test Period and calendar year 2019 as the Attrition Period.

Q9. DISCUSS THE APPROACH YOU TOOK IN QUANTIFYING PRO-FORMA ATTRITION PERIOD O&M COSTS

A9. First, I identified unadjusted O&M expenses for the twelve-month period ending December 31, 2017,[4] the Test Period for this Docket. Next, I made five adjustments, discussed below, to the Test Period data to determine the pro-forma Test Period O&M. Finally, estimated inflation factors were applied to the pro-forma adjusted Test Period data to arrive at pro-forma Attrition Period data.

Q10. WOULD YOU BRIEFLY OUTLINE THE SIX O&M ADJUSTMENTS YOU AND MR. NOVAK ARE SPONSORING?

A10. Yes. Listed below are the adjustments we are supporting in this Docket for the O&M Expense calculation:

[4]Information obtained in response to Consumer Advocate Discovery Request No. 1-142, as summarized on Consumer Advocate Schedule No. 9, and outlined in greater detail in Consumer Advocate Schedule No. 9-12.

Table 1		
	Adjustments to O&M	Amount
	Test Period O&M	12,067,184
[redacted]		
Adjustment 5	Rate Case Amortization	115,718
[redacted]		
	Attrtition Period O&M	10,964,177

I am recommending the Commission approve adjustments on lines 1-4 and 6 above. Mr. Novak, in his testimony describes and recommends the Commission approve the adjustments on line 5.

Q11. PLEASE SUMMARIZE YOUR ADJUSTMENT CONCERNING INCENTIVE COMPENSATION COST, AS SHOWN ON TABLE 1, ADJUSTMENT 1.

A11. This adjustment eliminates [redacted] in O&M costs associated with Incentive Compensation costs. The components of this adjustment include [redacted] of Incentive Compensation associated with direct CGC labor costs, and [redacted] in Bonus and Long-Term Incentive Compensation allocated to CGC from its affiliate AGSC.

Q12. WERE YOU SURPRISED AT THE LEVEL OF INCENTIVE COMPENSATION IN THIS CASE?

A12. Yes. The magnitude of allocated Incentive Compensation is surprisingly large given the relatively small size of CGC's operations. The CGC Test Period unadjusted O&M charges, excluding gas costs, are just over $12 million. Therefore, the Incentive Compensation costs represent over [redacted]% of the total CGC O&M charges.

Q13. AS BACKGROUND, PLEASE DESCRIBE THE TYPES OF INCENTIVE COMPENSATION AND THE BASIS UPON WHICH SUCH COSTS ARE PAID OUT TO EMPLOYEES.

A13. The Southern Company has two types of Incentive Compensation, short-term and long-term.[5] The short-term program is referred to as the Performance Pay Program and is available to all employees. The Long-Term Incentive Compensation program is available to employees in a certain pay grade.[6] The split of the total Incentive Compensation recorded on CGC books in the Test Period split between Short-Term and Long-Term is:

Short-Term: $[redacted]

Long-Term: $[redacted]

Q14. WHAT IS YOUR RATIONALE FOR YOUR RECOMMENDATION TO REMOVE INCENTIVE COMPENSATION EXPENSE FROM TEST PERIOD O&M?

A14. A significant portion of the Short-Term Incentive Compensation payouts are driven by corporate and business unit financial performance that directly benefits The Southern Company shareholders and therefore such costs should not be borne by CGC ratepayers. These corporate and business unit financial performance goals include metrics that measure The Southern Company's Earnings Per Share (EPS)[7] and those that measure SCG's net income. Further, all Long-Term Incentive Compensation is designed to encourage eligible employees to enhance per-share increases in The Southern Company stock price. The higher the stock price relative to its group of peer electric utilities, the greater the employee payout.

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[5] Response to Consumer Advocate Discovery Request No. 1-117a and b.

[6] Apparently, there are no Tennessee-based employees eligible for Long-Term Incentive Compensation as there are no Long-Term Incentive Compensation costs incurred directly by CGC.

[7] Given the scope and scale of The Southern Company's electricity operations, most of The Southern Company EPS goals will be driven by the financial performance of its electric utility operations. CGC Earnings contribute less than $.01/share for The Southern Company.

Such compensation is designed to benefit shareholders and is not the type of cost that is appropriate to include in the CGC revenue requirement. The adjustment to CGC Labor costs totals $[redacted] while the adjustment to Allocated Costs totals $[redacted]. This adjustment is set forth in Consumer Advocate Schedule No. 4-1. My recommendation to remove these costs is consistent with the TPUC Order approving the Stipulation and Agreement in Docket No. 14-00146, in which Atmos Incentive Compensation costs were removed.[8]

Q15. PLEASE CONTINUE WITH A DISCUSSION OF THE SECOND ADJUSTMENT YOU ARE SUPPORTING REGARDING PENSION AND OPEB COSTS, AS SHOWN ABOVE ON TABLE 1, ADJUSTMENT 2.

A15. This adjustment increases O&M expense for cash pension contributions[9] and reduces O&M for accrued pension and Other Post Employment Benefit (OPEB) costs. The net adjustment reduces O&M costs $[redacted] as set forth in Consumer Advocate Schedule No. 4-2.

Q16. WHAT IS THE RATIONALE FOR THIS ADJUSTMENT TO PENSION AND OPEB COSTS?

A16. This adjustment is consistent with a prior TPUC decision involving a Tennessee American Water Company (TAWC) rate case in Docket No. 08-00039.[10] In that case, TPUC adopted the Cash Contribution Approach to defining Pension Expense rather than the accrued accounting costs proposed by TAWC. More recently, TPUC also adopted the Cash Contribution Approach to determining pension and OPEB costs in Docket No. 14-00146, Atmos' general rate case.

Q17. PLEASE SUMMARIZE YOUR RECOMMENDATION CONCERNING YOUR ADJUSTMENT TO REMOVE GOVERNMENTAL AFFAIRS

[8] TPUC Order 14-00146 dated November 4, 2015.

[9] When asked in Consumer Advocate Discovery Request No. 1-308, CGC only referenced cash contributions to its pension plan and did not identify any cash contributions to its OPEB plan.

[10] TPUC Order dated January 13, 2009.

LABOR CHARGES AND CERTAIN RELATED CHARGES FROM THE COMPANY'S PROPOSED O&M COSTS, AS SHOWN ON TABLE 1, ADJUSTMENT 3.

A17. This Adjustment eliminates $[redacted] (Marked by the Company as Confidential) in Governmental Affairs labor charges from the Test Period O&M costs, as well as associated benefit costs and a small portion of organizational dues that relate to lobbying. Of the total adjustment amount, $[redacted][11] is allocated from AGSC; $[redacted][12] is allocated to CGC through AGSC from Southern Company Services; $[redacted] is benefit costs associated with the above allocated labor; and $[redacted] relates to the portion of organizational dues related to lobbying.[13] This adjustment is set forth and supported in Consumer Advocate Schedule No. 4-3.

Q18. PLEASE EXPLAIN YOUR RATIONALE FOR ELIMINATING COSTS ASSOCIATED WITH CGC'S AND AGSC'S GOVERNMENTAL AFFAIRS FUNCTION.

A18. The job descriptions associated with these charges were provided by CGC in Consumer Advocate Discovery Request No. 1-41 and were identified by CGC as Confidential.

[redacted]

[redacted]

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[11] Response to Consumer Advocate Discovery Request No. 1-141.
[12] Response to Consumer Advocate Discovery Request No. 1-119.
[13] Response to Consumer Advocate Discovery Request No. 1-154.

[redacted]

These tasks are consistent with the Federal Energy Regulatory Commission's (FERC) definition of Account 426.4 "Expenditures for certain civic, political and related activities".[14] This account is considered 'below the line' for ratemaking purposes and therefore should be excluded from the determination of CGC's revenue requirement.

Q19. PLEASE SUMMARIZE YOUR RECOMMENDED ADJUSTMENT TO REFLECT CHANGES TO AGSC'S CORPORATE COST ALLOCATIONS, AS SHOWN ON TABLE 1, ADJUSTMENT 4.

A19. This adjustment reduces the Company's proposed O&M charges, [redacted], by modifying AGSC's Composite Allocation Ratio. The use of a general allocator is a common practice within the utility industry to assign costs that cannot be allocated using a more specific allocator.

While AGSC's Composite Ratio uses four factors (identified and discussed below), I modify the ratio to exclude one of the four factors AGSC uses in the computation of the ratio, resulting in a reduction in costs allocated from AGSC to CGC.

Q20. WOULD YOU DESCRIBE THE COMPOSITE RATIO AND HOW IS IT USED BY AGSC TO ALLOCATE COSTS?

A20. The AGSC Composite Ratio is a general allocator that is applied to the residual costs of AGSC that are not assigned to affiliates using a more specific allocation

[14] The FERC definition for account 426.4 is as follows: This account shall include expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda legislation or ordinances, or approval, modification or revocation of franchises; or for the purpose of influencing the decisions of public officials, but shall not include such expenditures which are directly related to appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations.
[18] Code of Federal Regulations Chapter 1, Subchapter F, Part 201.

ratio. In this sense it is a 'general' allocator that is applied to those costs that AGSC believes cannot be assigned using another method.

Q21. HOW DOES AGSC CALCULATE THE COMPOSITE RATIO?

A21. The Composite Ratio is the average factors for the following four categories as defined by the ratio of CGC data to total SCG's data: a) total assets, less receivables, b) full time equivalent employees, c) Operating Margin, and d) Operating Expenses.

Q22. PLEASE IDENTIFY WHICH OF THE FACTORS YOU HAVE EXCLUDED.

A22. I have excluded the Operating Expense portion of the Composite Ratio.

Q23. WHY HAVE YOU EXCLUDED THIS FACTOR?

A23. This factor includes a significant level of allocated charges since it is based upon total operating expenses, therefore this allocator is circular in nature. In other words, Operating Expenses include allocated costs and I do not believe it is appropriate to then allocate costs subject to the composite allocator which in part are based upon total allocated costs for the prior quarter. Therefore, I have excluded the operating expense allocator and recalculated the Composite Ratio based upon the average of the three factors for each of the four quarters in 2017.

Q24. DESCRIBE YOUR APPROACH AFTER EXCLUDING THE OPERATING EXPENSE ALLOCATOR.

A24. After excluding the operating expense allocator, I applied the revised Composite Ratio to the total AGSC charges that were subject to the Composite Ratio. The result is a reduction in O&M costs of $[redacted] as set forth on Consumer Advocate Schedule No. 4-4. The recalculated Composite Ratio is shown below in Table 2.

** Note: Chart has been marked Confidential by the Company per Protective Order.

Table 2				
Calculation of Composite Ratio				
A/ 2017	Assets Less Receivables	Full Time Employees	Operating Margin	Average
[redacted]				
A/	CONFIDENTIAL CPAD-1-347h,i,j,&k			

Q25. WERE YOU ABLE TO VERIFY THE ACCURACY OF THE COMPOSITE RATIO USED BY AGSC?

A25. No. I have not able to confirm the accuracy of AGSC Composite Ratio.

Q26. WHY WERE YOU UNABLE TO CONFIRM THE ACCURACY OF AGSC'S COMPOSITE RATIO?

A26. A number of SCG's entities have been excluded from the development of the Composite Ratio, due to very little or no commercial operations according to CGC.[15]

Q27. ARE YOU CONCERNED WITH THE NUMBER OF ENTITIES EXCLUDED FROM THE DEVELOPMENT OF THE COMPOSITE RATIO?

A27. Yes. My concern is that SCG (or AGSC) may exclude certain competitive enterprises in the development of allocation ratios to assign more costs to

[15] See response to Consumer Advocate Discovery Request No 1-347.

regulated entities, including CGC. Entities that are excluded from AGSC's Composite Ratio are not assigned common costs, therefore leaving more costs assigned to regulated entities such as CGC.[16]

To illustrate my concern, in response to Consumer Advocate Request No. 1-356, a sample of seven nonregulated entities were selected and their financial statements requested to determine whether in fact they had little or no commercial activity. After an initial objection and much discussion, the requested information was provided on June 11, 2018. [redacted] This concern then extends to the other non-regulated (competitive) entities that are also excluded from receiving composite cost allocations. I will discuss additional deficiencies related to the Company's Cost allocation process later in my testimony.

** Note: Chart was marked Confidential by the Company per Protective Order.

Table 3	
	Affiliate Sampled
[redacted]	

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[16] I specifically reserve the right to amend my testimony given the late filing of compelled responses to Consumer Advocate Discovery Request No. 1-400.

Q28. PLEASE DESCRIBE YOUR ADJUSTMENT TO O&M COSTS RELATED TO THE ATTRITION PERIOD, AS SHOWN ON TABLE 1, ADJUSTMENT 6.

A28. This adjustment increases O&M costs $[redacted] to move the Consumer Advocate adjusted Test Period costs to the Attrition Period.

Q29. PLEASE EXPLAIN HOW YOU CALCULATED THE ATTRITION PERIOD FACTORS USED WITHIN YOUR ADJUSTMENT.

A29. Three inflation factors were developed, including labor, customer growth and a composite growth factor. The labor growth factor was calculated based upon the two-year average growth in CGC O&M labor costs. This factor was then doubled to reflect the estimated growth in the two-year period between 2017 to the 2019 Attrition Period. The customer growth factor was developed by Mr. Novak and described in his testimony. The Consumer Advocate's Composite Factor was developed based upon the annual average 2018 CPI factors developed by CGC in Minimum Filing Guidelines (MFG) No. 43. This annual factor was then doubled to reflect the two-year period between the Test Period and the Attrition Period.

Q30. HOW DID YOU APPLY TEST PERIOD COSTS TO THE ATTRITION PERIOD FACTORS?

A30. The Test Period O&M costs were classified into one of the three categories, the labor factor was then applied to CGC direct labor, the customer growth factor was applied to Customer related O&M costs, and the composite growth factor was applied against the remainder of the Consumer Advocate adjusted Test Period O&M expenses. The result is an increase in O&M costs of [redacted] to estimate the Attrition Period O&M costs based upon the Consumer Advocate adjusted Test Period.

Q31. IN ADDITION TO THE ADJUSTMENTS YOU RECOMMENDED EARLIER, ARE THERE ANY OTHER SIGNIFICANT DIFFERENCES BETWEEN YOUR ATTRITION PERIOD COSTS AND THOSE PROPOSED BY CGC?

A31. Yes. One significant difference is the CGC assumption that it would increase its Tennessee-based employee count by 25% between the Test Period and its Attrition Period. Table 4 below shows the difference between the Consumer Advocate's adjusted Attrition Period and that included by CGC in this filing:

Table 4 - Summary of Attrition Period Payroll Expense

	A/			B/	
	CPAD Test Period FYE 12-31-17	[redacted]	CPAD Attrition Period FYE 12-31-19	CGC Attrition Period FYE 6-30-19	CPAD - CGC Difference
Payroll Expense	$ 3,010,584		$ 2,929,318	$ 3,537,716	$ (608,398)

A/ CPAD Exhibit, Schedule 9-12
B/ CGC TPUC MFG 25 All Attachments and Tucker Exhibits Rev 6-1-2018, Tab O&M

History suggests the 25% increase in CGC labor is an unrealistic assumption and one that appears to be an attempt to increase the revenue requirement without any real substance. CGC points to the aging work force; however, gas utilities have faced this issue for some time now without such a large increase. Further, new employees tend to be compensated less than retiring employees.[17] The situation of an aging workforce may be a temporary challenge, but not one that justifies an extraordinary permanent increase in the forecasted CGC labor count significantly in excess of historic employment levels.

Table 5 as shown below highlights the consistent employment levels of CGC contrasted with the number of budgeted employees assumed as of December 31, 2018.[18]

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[17] For a comparison of the per employee costs associated with new hires compared with retirees, compare the Company's responses to Consumer Advocate Discovery Request Nos. 1-139. and 1-140.

[18] The Consumer Advocate would point out that utilities have strong incentives to inflate budgeted costs within its Attrition Period in the context of a rate case.

Table 5		
Comparison of Actual and Budgeted Employee Count		
A/		
Period	Actual Employees	Budgeted Employees
12/31/2012	39	41
12/31/2013	40	42
12/31/2014	39	40
12/31/2015	38	39
12/31/2016	39	39
12/31/2017	40	45
12/31/2018	N/A	50
A/	Response to CPAD DR 1-122	

III. ATTRITION PERIOD TAXES OTHER THAN INCOME TAXES

Q32. PROVIDE A SUMMARY OF YOUR RECOMMENDATIONS REGARDING TAXES OTHER THAN INCOME TAXES.

A32. The Test Period balances of taxes were determined, and appropriate factors were applied to calculate the Attrition Period balances. The majority of Taxes Other than Income Taxes are comprised of Property Taxes. Other components include TPUC Inspection Fees, Payroll Taxes, Franchise Taxes and Gross Receipts Tax.

Q33. EXPLAIN HOW YOU ARRIVED AT THE ATTRITION YEAR BALANCES.

A33. The Test Period balances of Taxes Other than Income Taxes were determined as set forth on Consumer Advocate Schedule No. 10-1. The Test Period balances were increased using growth factors related to each tax item. Property Taxes were increased over the two-year period based upon the forecasted growth in plant. State Gross Receipts Taxes and State Franchise Taxes were increased based upon the growth in forecasted Attrition Period revenue compared to Test Period revenue. Net Payroll Taxes were increased based upon the forecasted growth in payroll over the two-year period, and the TPUC Inspection Fees were increased using the composite attrition period factor based upon CGC's CPI factors. The resulting adjustment in Test Period costs is $293,184 as identified in Consumer Advocate Schedule No.10-1.

IV. ATTRITION PERIOD CASH WORKING CAPITAL

Q34. PLEASE PROVIDE A SUMMARY OF YOUR RECOMMENDATIONS CONCERNING CASH WORKING CAPITAL.

A34. My Cash Working Capital (CWC) calculation excludes the Return on Equity from the balance of Operating Expenses subject to calculating the Daily Cost of Service. The Daily Cost of Service is then applied to the Net Lag Days to determine the CWC required for Operating Expenses. My adjustment also incorporates the test period average balance of Tax Collections Withheld.

Q35. PLEASE PROVIDE AN OVERVIEW OF CWC, HOW IT IS DETERMINED AND HOW IT IMPACTS THE DETERMINATION OF A UTILITIES' REVENUE REQUIREMENT.

A35. CWC is a measurement of the amount of cash a company requires to have on hand to fund day-to-day operations. The most precise method of determining CWC is through the use of a lead-lag study, such as the one presented by CGC witness Adams in this case. A CWC study measures the timing between when revenue is earned and when it is received, when cash expenses are incurred and when they are paid. These measurements are netted to determine the amount of funding required to provide utility service. This level of funding, or investment is appropriately included as a component of Rate Base. The level of CWC in Rate Base may be positive or negative depending upon the outcome of the study.

Q36. WHAT IS THE AMOUNT OF CWC YOU ARE SUPPORTING AS AN ADJUSTMENT TO CGC RATE BASE?

A36. Consumer Advocate Schedule No. 5 sets out the Net CWC required of $150,702. This compares with a CGC request to increase Rate Base $1,521,871.

Q37. YOU MENTION ABOVE THAT YOU HAVE REMOVED RETURN ON EQUITY IN THE CALCULATION OF DAILY OPERATING EXPENSES THAT THEN ARE USED TO COMPUTE THE BALANCE OF CWC – PLEASE EXPLAIN YOUR RATIONALE.

A37. First, Return on Equity is a non-cash expense that does not generate a cash requirement on behalf of CGC or The Southern Company. The payment of shareholder dividends is optional, and the vast majority of Net Income is retained by the Company. If dividends are paid, they are done so in arrears, with a significant expense lag. This lag has not been factored into Mr. Adams' analysis, assuming a conclusion that some aspect of Return on Equity represented a requirement to outlay cash to fund operations. Finally, investors recognize that the receipt of cash associated with Return on Equity is not instantaneous and that any such delays are already factored into shareholder expectations.

The purpose of a lead lag study is to determine the cash necessary to fund operating expenses. The Return on Equity is neither a cash item, nor an operating expense and it does not qualify as a component of the cash working capital study.[19]

Q38. HAS TPUC ADOPTED A CWC CALCULATION EXCLUDING EQUITY FROM THE CALCULATION OF DAILY OPERATING EXPENSES?

A38. Yes. The Commission adopted a Stipulation and Agreement in Docket No. 12-00049, a Tennessee American Water Company rate case that excluded Return on

[19] I have not excluded other non-cash items from the CWC study, such as Depreciation Expense and Deferred Taxes, and I believe the exclusion of these items may be warranted in future studies after further consideration.

Equity costs from the calculation of Daily Operating Expenses, and therefore it was completely excluded from determination of CWC in that case.

Q39. ARE YOU AWARE OF OTHER STATE REGULATORS' ORDERS SUPPORTING THE EXLCUSION OF RETURN ON EQUITY FROM THE DETERMINATION OF THE CWC CALCULATION?

A39. Yes. The Return on Equity component was not included in lead lag study, by the Illinois Commerce Commission in a Nicor Gas Company rate case.[20] Likewise, the Return on Equity component was not included in the CWC calculation of Kansas Gas Service in Docket No. 06-KGSG-1209-RTS.

In a case before the Hawaii Public Utilities Commission[21], the Commission found:

> Return on common equity does not represent any expenses incurred in providing service to which any revenue relates. Thus, **return on common equity is excluded from consideration in computing working cash.** (emphasis added.)[22]

Q40. IS THERE ANY OTHER SIGNIFICANT DIFFERENCE BETWEEN CGC'S CALCULATION OF CASH WORKING CAPITAL REQUIREMENTS AND THE METHOD SUPPORTED IN CONSUMER ADVOCATE SCHEDULE NO. 5?

A40. Yes. The other area of difference is in the determination of the working capital provided from Franchise, Sales and Use taxes. These are items that are collected from CGC ratepayers and later remitted by the Company to appropriate taxing authorities. The retention of these funds prior to remittance provides a source of ongoing working capital for the Company. I have relied upon the use of the Test Period average balance of these liability accounts to quantify the amount of funds available to CGC. This method is identical to that used to determine the gas

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[20] Illinois Commerce Commission Docket No. 17-0124.

[21] *In Re Hawaii Electric Light Company, Inc.*, 120 P.U.R. 4th 427 (Haw. Pub. Util. Comm'n, March 6, 1991).

[22] The Process of Ratemaking, Vol. II, Leonard Saul Goodman, Public Utilities Reports, Inc.

inventory portion and Materials and Supplies components of rate base and therefore provides for consistency.

V. ACCUMULATED DEFERRED INCOME TAXES AND TCJA AMORTIZATION

Q41. PLEASE SUMMARIZE YOUR RECOMMENDATION REGARING ACCUMULATED DEFERRED INCOME TAXES, THE TCJA AND ITS IMPLICATIONS ON THE REVENUE REQUIREMENT OF CGC.

A41. I am recommending that the Tax Savings accruing for the period January 1, 2018 through September 30, 2018 resulting from the reduction in the federal tax rate from 35% to 21% be amortized and returned to CGC ratepayers over a three-year period. Similarly, the excess ADIT resulting from the tax rate reduction should be returned to CGC ratepayers over a three-year period. The amortization of the balances of both the tax savings and the excess ADIT should not begin until new base rates in this case become effective.

Q42. PLEASE BEGIN BY PROVIDING SOME BACKGROUND INFORMATION ON THE TAX CUTS AND JOBS ACT.

A42. In December, 2017 the President signed the Tax Cuts and Jobs Act into law. The new legislation lowered the federal tax rate for corporations from 35% to 21% effective January 1, 2018. This reduction in the federal tax rate has significant implications for balances of Accumulated Deferred Income Taxes (ADIT), an important source of cost-free capital for utilities. These deferred income taxes arise from the difference in determination of taxable income compared with book income calculated consistent with Generally Accepted Accounting Principles

(GAAP). The single largest difference[23] in these two measures of income is the determination of depreciation. Accelerated tax depreciation, including the use of bonus depreciation,[24] is used to reduce taxable income, while book income incorporates much lower depreciation rates.

Q43. HOW DOES THIS DIFFERENCE BETWEEN BOOK INCOME AND TAXABLE INCOME AFFECT THE CACULATION OF ADIT?

A43. This cumulative[25] difference between taxable and book income is then applied against the composite federal and state income tax rate,[26] and the result is the balance of ADIT[27]. Income tax expense included in regulated utility rates is determined based upon the higher level of book income, therefore the balance of deferred taxes reflects amounts of expense incurred by the utility and collected from ratepayers, but which will not be paid in the form of current tax expense until some point in the future. Thus, deferred taxes are a source of cost-free capital that utilities may use to fund capital investment and is used to reduce rate base in the rate-setting process.

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[23] There are other differences in the measurement of the two income levels. Generally, taxable income relies more on cash expenses, while book income incorporates accrued expenses.
[24] Bonus depreciation has been in effect for a number of years; however, the TCJA prohibits the use of bonus depreciation for utilities beginning in 2018.
[25] The cumulative difference is measured as a running total of these book and tax differences.
[26] The composite tax rate is 26.135% and reflects the 6.5% state tax rate and the 21% statutory federal tax rate. Since state taxes are deductible for purposes of calculating federal tax expense, the composite rate is less than the sum of the two rates.
[27] The cumulative book and tax differences are multiplied by the composite tax rate in arriving at the balance of ADIT.

Q44. WHAT EFFECT DOES THE REDUCTION IN THE FEDERAL TAX RATE HAVE ON THE BALANCE OF ADIT?

A44. The balance of ADIT is a function of the composite federal/state tax rates. Therefore, since the federal tax rate was significantly reduced, the balance of ADIT is reduced accordingly. However, the ADIT balance (pre-TCJA) reflects the collection of income tax expense accrued by utilities, but which will not be paid until some point in the future. Ratepayers fund these tax pre-payments and therefore have a claim on the balance of ADIT that is reduced as a result of the reduction in the federal income tax rate.

Q45. HAS THE TENNESSEE PUBLIC UTILITY COMMISSION IDENTIFIED THE REDUCTION IN ADIT ARISING FROM THE TCJA AS A REGULATORY ISSUE IN ANY DOCKET?

A45. Yes. TPUC addressed this point in Docket No. 18-00001 when it required utilities to calculate the excess deferred tax reserve caused by the reduction in the corporate federal income tax rate.[28] TPUC further required this excess balance be captured as a deferred liability on the books of Tennessee's largest investor-owned utilities, in order to accurately measure the ongoing cost-free capital provided by ratepayers.[29] This excess ADIT reflects the reduction in the liability balance that results from the reduction in the composite rate due to the federal tax rate change.

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[28]TPUC Docket No. 18-00001, TPUC Order Opening an Investigation and Requiring Deferred Accounting Treatment, Order dated February 6, 2018.
[29] TPUC Docket No. 18-0001.

Q46. IS THERE A SPECIFIC DOCKET SET UP TO ADDRESS REGULATORY ISSUES SURROUNDING THE TCJA FOR CGC?

A46. Yes. TPUC Docket No. 18-0035 was initiated to address the regulatory implications of the TCJA on CGC.

Q47. DID CGC SUPPORT THE CONCEPT OF ADDRESSING ALL TCJA IMPACTS IN ITS PENDING RATE CASE?

A47. Yes.

Q48. HAS CGC COMPLIED WITH THIS PORTION OF THE TPUC REQUEST?

A48. CGC has only partially complied with this requirement. Effective with the TCJA implementation in late December, 2017, CGC has identified its excess ADIT balance and moved it to a regulatory liability balance. However, at least for purposes of this case, CGC has begun to amortize its excess ADIT balance,[30] which is not in compliance with the TPUC order and which has negative implications for CGC ratepayers which I will discuss later in my testimony.

Q49. DOES THE TCJA CONTAIN REQUIREMENTS FOR HOW REGULATORS MUST TREAT EXCESS ADIT WITHIN THE RATEMAKING PROCESS?

A49. The TCJA requires specific treatment for the portion of excess ADIT, known as "Protected". "Protected" excess ADIT relates to property-related book and tax timing differences and the TCJA requires that such excess be amortized over the life of the collective assets giving rise to the ADIT using one of two amortization

[30] It is unclear whether CGC has begun the amortization on its books that is reflected in its Amended MFG 69-13.

methods[31]. Excess ADIT balances related to timing differences other than property, referred to as "Unprotected", may be addressed at the discretion of state regulatory commissions, including TPUC. "Unprotected" ADIT is essentially all other book and tax timing differences other than those related to property.

Q50. DO YOU BELIEVE THE IMPACTS OF THE TCJA MAY BE ADDRESSED FOR CGC WITHIN THIS RATE CASE FILING?

A50. Yes.

Q51. CAN YOU PLEASE LIST THE REVENUE REQUIREMENT IMPLICATIONS OF THE TCJA?

A51. Yes. Implications of the TCJA on the CGC revenue requirement include:

1. Reduction in the federal income tax rate from 35% to 21% effective with the implementation of new base rates.
2. Identification of Excess ADIT further split between the "Protected" and "Unprotected" categories.
3. Annual Amortization expense calculation of the "Protected" excess ADIT associated with property-related book tax timing differences.
4. Period used to amortize excess "Unprotected" ADIT as a reduction to Operating Expenses.
5. The timing of amortizing all excess ADIT, which impacts the Attrition Period balance of unamortized ADIT as a rate case component.

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[31] The two methods are the Average Rate Assumption Method and the Reverse South Georgia Method. In both approaches the objective is to amortize the "Protected" Excess ADIT over the life of the remaining assets.

6. The proposal by CGC to retain tax expense saving for the period between January 1, 2018 and the date new rates become effective.

Q52. REFERRING TO THE ABOVE LIST, ARE THERE ASPECTS OF THE TCJA FOR WHICH YOU AGREE WITH THE METHODS USED BY CGC?

A52. Yes. I agree with CGC's treatment of the following aspect of the TCJA:

1. Reduction in the federal income tax rate from 35% to 21% effective with the implementation of new base rates. This issue is the single most significant aspect of the TCJA and I agree with the use of the lower tax rate as used by CGC within its Income Tax Expense calculations for purposes of setting rates on a going forward basis.

2. Identification of Excess ADIT further split between the "Protected" and "Unprotected" categories. I have reviewed the determination of excess ADIT and have no objection with CGC's calculation of the deferred liability and the resulting lower ADIT balance.[32] I further have no objection with the CGC calculated determination of the "Protected" and "Unprotected" portions of the excess ADIT (deferred regulatory liability).

3. Annual Amortization expense calculation of the "Protected" excess ADIT associated with property-related book tax timing differences. I have no objection with CGC's amortization of excess "Protected" ADIT. This amortization results in a credit to pro-forma Income Tax Expense over the life of the assets, thus reducing the revenue requirement.[33] However, I disagree with the

[32] Supplemental Response to Consumer Advocate Discovery Request No. 1-374.
[33] Of the total Amortization of Deferred Tax Liability per CGC of $897,742 as shown on RDJ No.1-3 (revised in MFG No. 25), $397,482 relates to "Protected" Excess ADIT (MFG No. 69-13 revised).

timing of this amortization as CGC has initiated amortization in advance of approval by TPUC as I will discuss below.

Q53. AGAIN, REFERRING TO THE LIST ABOVE, ARE THERE ASPECTS OF CGC IMPLEMENTATION OF THE TCJA WITH WHICH YOU DISAGREE?

A53. Yes. Identified below are aspects of CGC's implementation of the TCJA with which I disagree.

1. Period used to amortize excess "Unprotected" ADIT as a reduction to Operating Expenses. CGC proposes to amortize its balance of "Unprotected" ADIT to the cost of service over a five-year period. Ironically, CGC has proposed a five-year amortization period for the amortization of rate case expense, an item that increases the revenue requirement. I propose using a three-year amortization period. These amounts belong to ratepayers, justifying a shorter amortization period. Further, the three-year period is consistent with the period used to amortize rate case costs. The use of a three-year amortization period reduces O&M costs $253,143 as shown on Consumer Advocate Schedule No. 11-1.2, compared with the use of a five-year amortization period.

2. The timing of amortizing all excess ADIT, which impacts the Attrition Period balance of unamortized ADIT as a rate case component. CGC has reflected its Attrition Period balance of its unamortized excess ADIT balance. I do not object to the proposal that the unamortized excess ADIT balance reflects cost-free capital that is properly included as a rate base deduction. However, CGC has prematurely begun amortizing and retaining these benefits as of December,

2017,[34] thus reducing its unamortized balance. Rather than initiating the amortization of the excess ADIT[35] as of December, 2017, I recommend TPUC require initiating of the amortization to begin as of the effective date of new base rates in this case. In this way, CGC ratepayers receive the full benefit of the excess ADIT. CGC has begun amortizing ADIT which translates to retention of the benefits of the TCJA for its shareholders to the detriment of its ratepayers. Further, such amortization of excess ADIT balances is not provided for in the TPUC order initiating an investigation in Docket No. 18-00001. The amortization of both components of excess ADIT should commence with the implementation of base rates. In this manner, the ratemaking impact of TCJA is synchronized with new base rates. CGC should not be permitted to retain any portion of the excess ADIT, which would occur if this adjustment is not adopted.

3. The proposal by CGC to retain tax expense saving for the period between January 1, 2018 and the date new rates become effective. TPUC established Docket No. 18-00035 as the federal tax reform compliance docket for CGC. On March 29, 2018, CGC submitted comments indicating that since it has historically underearned its authorized return on equity it should be permitted to retain the tax savings resulting from the reduced federal income tax rate effective January 1, 2018. I take exception to this proposal for several reasons. First, the tax savings at issue are generated in 2018. CGC argues[36] that its financial results for the prior twelve-month average were below its authorized rate of return, thus it

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[34] See CGC MFG No. 69-13 revised May 31, 2018.
[35] As discussed above the "Protected" portion of excess ADIT is to be amortized over the life of the assets, while CGC is amortizing its excess "Unprotected" ADIT over a five-year period.
[36] CGC Compliance Filing and Report, TPUC Docket No. 18-00035, page 2.

should be permitted to retain the tax savings. The attribution of 2018 tax savings to 2017 financial results represents a mismatch of accounting periods. Further, the application of savings accruing in 2018 due to financial results occurring in 2017 implies rates were unjust and unreasonable. The CGC proposal to attribute 2018 savings to 2017 financial results could be interpreted as retroactive ratemaking,[37] which is the setting of rates to permit a regulated entity from recovering past losses.

Secondly, as evidenced by this filing, there is a broad difference of opinion on the regulatory earnings of CGC. Putting aside the potential problem with the retroactive application of 2018 tax savings to 2017 results, I do not believe there is clear evidence that CGC was under-earning during the period in question. The Consumer Advocate has presented evidence in this Docket that CGC has not justified the need for a rate increase.[38]

Finally, the retention of tax savings in 2018 was not provided for within the TPUC Order opening its investigation. There is no language in the Order providing for the retention of 2018 tax savings if a showing of under-earnings was demonstrated.

Q54. WHAT IS YOUR RECOMMENDATION FOR THE REGULATORY TREATMENT THAT SHOULD BE AFFORDED CGC'S INCOME TAX EXPENSE SAVINGS ACCRUING IN 2018?

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[37] One example of retroactive ratemaking is the recovery of past losses in rates charged in the future. This is consistent with the argument made by CGC to apply 2018 tax savings to (alleged) 2017 earnings deficiencies.
[38] Please see Mr. Novak's testimony with respect to CGC's claim of over-earning and related data.

A54. I believe such savings should be estimated and returned to CGC ratepayers over a three-year period through a credit to a specific Regulatory Amortization Expense. The unamortized balance of these tax savings represents a source of cost-free capital and should be used to reduce rate base. I have estimated the amount of tax savings accruing through September, 2018 at $560,961.[39]

Q55. HOW DID YOU ESTIMATE THE AMOUNT OF TAX SAVINGS ACCRUING DURING 2018?

A55. I obtained the Income Tax Expense component included in base rates in the last CGC base rate proceeding, TPUC Docket No. 09-00183. This Income Tax Expense component was dependent upon the composite tax rate in effect during that period. Using both the Income Tax Expense component and the composite tax rate I was able to compute the taxable income amount incorporated within the revenue requirement. I then applied the new composite tax rate to the computed taxable income to arrive at a pro-forma level of Income Tax Expense. The difference between the previously authorized Income Tax Expense component and the pro-forma amount of Income Tax Expense reflects an annual level of Income Tax Expense savings attributed to the reduced federal income tax rate. For purposes of this Docket, I assumed new tariff rates as ordered by the Commission would become effective on October 1, 2018, which would then include the reduced federal income tax rate, therefore I reduced the annual tax savings to reflect over-collection of Income Tax Expense for nine months of 2018. I then

[39] If rates resulting from this case are implemented on a different date, this tax savings calculated would change accordingly.

amortized the resulting balance over a three-year period to calculate the appropriate credit to the revenue requirement.

The calculation is summarized in Table 6 below.

Table 6

Line No.	Calculation of 2018 Tax Savings Estimated Through September, 2018		
1	Income Tax Expense Component built into Base Rates Docket 09-00183	$2,241,272	
2	Total State and Federal Effective Rate - Docket 09-00183	39.225%	
3	Calculated Taxable Income from Docket 09-00183		$5,713,887
4	Current Composite Federal and State Income Tax Rate	26.135%	
5	Pro-Forma Income Tax Expense - 2018 (Line 3 * Line 4)		$1,493,324
6	Current Annualized Tax Savings (Line 1 - Line 5)	$ 747,948	
7	Estimated Portion of Savings - January - September, 2018 (Line 6 * 9 / 12)	**$ 560,961**	

This calculation is also shown on Consumer Advocate Schedule No. 11-3.

Q56. HOW DID YOU DETERMINE THE APPROPRIATE REDUCTION TO RATE BASE ASSOCIATED WITH THE UNAMORTIZED TAX SAVINGS DEFERRAL?

A56. Once the total tax savings were determined, I amortized the balance over a three-year period, starting with the estimated date of new base rates, October 1, 2018. My adjustment to reduce rate base was based upon the average unamortized balance during the 2019 Attrition Period. This balance is reflected on Consumer Advocate Schedule No. 11-1.

Q57. ARE YOU SUPPORTING ANY ADJUSTMENTS TO THE BASE LEVEL OF ADIT PROPOSED BY CGC IN ITS ATTRITION PERIOD?

A57. No.

VI. ACCOUNTING POLICY CONCERNS AND RECOMMENDATIONS

Q58. AT THE OUTSET, PROVIDE SOME CONTEXT ON THE MAGNITUDE OF COSTS ALLOCATED TO CGC RELATIVE TO ITS TOTAL O&M COSTS.

A58. In 2017, CGC incurred affiliate charges of $5,229,945,[40] compared with total 2017 O&M costs of $12,067,183,[41] excluding purchased gas costs.[42] Therefore, these affiliate charges are a major component of total CGC O&M charges.

Q59. WHAT ENTITY PROVIDES THESE AFFILIATE SERVICES TO CGC AND WHAT IS THE SCOPE OF COSTS INCURRRED BY THIS AFFILIATE?

A59. In 2017, AGSC allocated a total of $274,687,176[43] to affiliates of SCG, including CGC.

Q60. COULD YOU PLEASE SUMMARIZE YOUR CONCERNS WITH THE PROCESS USED TO ALLOCATE COSTS TO CGC?

A60. There is a significant lack of transparency and documented processes supporting the cost allocation methodology that I would expect from a very large regulated entity such as The Southern Company. This shortcoming has driven the need for a

[40] Response to Consumer Advocate Discovery Request No. 1-41.
[41] See Consumer Advocate Schedule No. 9-13.
[42] Purchased gas expense is not an element of the revenue requirement calculation and therefore is not included in base rates.
[43] Response to Consumer Advocate Discovery Request No. 1-41.

significant amount of discovery in this Docket. The lack of transparency prevents the Consumer Advocate from drawing conclusions on the reasonableness of the allocated charges. The lack of emphasis in maintaining necessary documentation supporting affiliate transactions within a company the size of SCG[44] appears to be a corporate strategy designed to prevent the Consumer Advocate and regulators from fully evaluating these charges.

Q61. DOES SOUTHERN COMPANY GAS HAVE A COST ALLOCATION MANUAL (CAM) WHICH DOCUMENTS THE PROCESSES AND METHODOLOGIES USED IN ALLOCATING COSTS TO ITS ENTITIES?

A61. No.[45]

Q62. WHAT IS THE PURPOSE OF A CAM?

A62. The purpose of a CAM for a regulated entity is two-fold. First, it provides formal specific guidance to employees on the procedures to follow in tracking costs and allocating such costs to the appropriate organization. The existence of the manual, along with periodic training and reinforcement, signifies that compliance with documented procedures is a priority. Secondly, the CAM should be used to support the reasonableness of such allocation methodologies and processes before state regulators. The lack of a CAM raises questions as to whether either of these objectives is a priority within SCG.

Q63. WHAT IS YOUR RECOMMENDATION TO TPUC CONCERNING THE LACK OF DOCUMENTATION SUPPORTING THE PROCEDURES

[44] My comments are focused on SCG as the vast majority of costs allocated to CGC are incurred at the AGSC level. There are some costs flowing from the Southern Company Services entity that flow to AGSC and then on to CGC, but these costs are relatively minor at the CGC level.
[45] Response to Consumer Advocate Discovery Request No. 1-12.

RELIED UPON BY AGSC IN ALLOCATING COSTS TO ITS AFFILIATES?

A63. I recommend TPUC require future CGC cost allocations to be supported by a fully transparent and documented CAM.

Q64. WHAT IS THE REGULATORY CONCERN REGARDING AFFILIATED TRANSACTIONS WITHIN AN ORGANIZATION THAT HAS SIGNIFICANT NON-REGULATED ENTITIES?

A64. Entities of the size and scope of the Southern Company (and separately SCG) can maximize overall corporate profitability by adopting cost allocation methods and processes that limit the amount of common costs assigned to competitive, non-regulated entities, resulting in relatively more costs assigned to entities providing monopoly services to captive customers. This concern is heightened as a result of the number of non-regulated entities within SCG.

Q65. WHAT ARE THE ESSENTIAL COMPONENTS OF A CAM THAT YOU ARE RECOMMENDING?

A65. The CAM should contain the following sections:

1. Corporate organization chart identifying all entities within the overall corporate organization. Each listed entity should have a description of the scope of business operations. There should be a complete explanation supporting the reason not to allocate costs to certain affiliate entities.

2. Method used to assign costs; specifically, that costs should be direct charged whenever possible. For those costs that cannot be direct charged, such as those associated with a customer call center should be assigned based upon causal

allocators. Finally, those costs that cannot be neither directly assigned, nor causally allocated should be allocated based upon a composite allocation factor.

3. Matrix that matches cost centers or accounts and the method(s) used to allocate costs by cost allocation method.

4. Quarterly update to allocation ratios. The allocation ratios should be updated quarterly as updated and revised data becomes available that is then used to recalculate the associated allocation ratios.

As mentioned in item 4, the CAM is a document that is constantly changing and being updated. Maintaining and ensuring compliance with a CAM requires focus; however, given the magnitude of corporate costs subject to allocation such effort is necessary to ensure accuracy and provide assurance that such material cost assignments between affiliates are justified.

Q66. ARE YOU AWARE OF ANY OTHER TENNESSEE JURISDICTIONAL UTILITIES THAT HAVE A CAM?

A66. Yes. Atmos Energy Corporation maintains a CAM provided in response to Consumer Advocate Request No. 3-13 provided in TPUC Docket No. 17-00091. While the Atmos CAM does not contain all of the reference material listed above, it does contain some of the information and the existence of such an updated[46] Service Agreement indicates such cost allocation processes are a corporate priority.

Q67. DID CGC PROVIDE A SERVICE AGREEMENT WHICH IT INDICATED GUIDED THE COST ALLOCATION PROCESS?

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[46] The date of the Atmos CAM is April 1, 2017.

A67. Yes. The response to Consumer Advocate Request No. 1-13 indicated that such affiliate services were provided by AGSC to CGC through a Service Agreement.

Q68. DID YOU FIND THE REFERENCED SERVICE AGREEMENT TO BE SUFFICIENT TO PROVIDE CONFIDENCE IN THE COST ALLOCATION PROCESS?

A68. No. First, the Service Agreement was entered in 2006, a time when the corporate structure that CGC operated in is significantly different than today. The Service Agreement (Agreement) contains none of the information listed above that should be contained in a CAM. Further, there is a lack of identification of methodologies that are consistently used and documented in the cost allocation process

Q69. DID YOU EVALUATE COMPLIANCE WITH THE AGREEMENT?

A69. Yes. CGC was unable to document communication between the parties as is required in the Agreement,[47] nor is it using types of allocators identified in the Agreement.[48] The age of the Agreement, including the fact that it had not been updated, coupled with the lack of compliance with the Agreement suggests the Agreement is not being relied upon by Southern Company Gas employees and is not serving a useful purpose.

VII. FAILURE TO PROVIDE CLEAR METHODS OF CALCULATING RATE COMPONENTS

Q70. DO YOU HAVE OTHER CONCERNS WITH RESPECT TO THE COMPANY'S ALLOCATIONS, AND SUPPORT SET OUT IN THIS GENERAL RATE CASE?

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[47] See response to Consumer Advocate Discovery Request No. 1-348.
[48] See response to Consumer Advocate Discovery Request No. 1-355.

A70. Yes. I have concerns about whether CGC's accounting data may be reasonably relied upon given the lack of sufficient documentation. The complexity of The Southern Company organization, the lack of transparency regarding the scope of unregulated operations, and the lack of CAM documentation coupled with the magnitude of affiliate cost allocations is an additional source of concern. In view of these issues, in my opinion CGC has failed to set forth the necessary practices and procedures for determining ongoing O&M costs. The lack of documentation does not demonstrate that CGC and SCG has sufficient controls in place to provide assurance that cost allocations to regulated operations are reasonable.

Q71. DOES THIS CONCLUDE YOUR TESTIMONY?

A71. Yes, but I reserve the right to amend or clarify my testimony if additional information or facts become available.

Exhibit DND-1

David Dittemore

Experience

Areas of Specialization
Approximately thirty-years experience in evaluating and preparing regulatory analysis, including revenue requirements, mergers and acquisitions, utility accounting and finance issues and public policy aspects of utility regulation. Presented testimony on behalf of my employers and clients in natural gas, electric, telecommunication and transportation matters covering a variety of issues.

Tennessee Attorney General's Office; **Financial Analyst September, 2017 – Current**
Responsible for evaluation of utility proposals on behalf of the Attorney General's office including water, wastewater and natural gas utility filings. Prepare analysis and expert witness testimony documenting findings and recommendations.

Kansas Gas Service; **Director Regulatory Affairs 2014 – 2017; Manager Regulatory Affairs, 2007 - 2014**
Responsible for directing the regulatory activity of Kansas Gas Service (KGS), a division of ONE Gas, serving approximately 625,000 customers throughout central and eastern Kansas. In this capacity I have formulated strategic regulatory objectives for KGS, formulated strategic legislative options for KGS and led a Kansas inter-utility task force to discuss those options, participated in ONE Gas financial planning meetings, hired and trained new employees and provided recommendations on operational procedures designed to reduce regulatory risk. Responsible for the overall management and processing of base rate cases (2012 and 2016). I also played an active role, including leading negotiations on behalf of ONE Gas in its Separation application from its former parent, ONEOK, before the Kansas Corporation Commission. I have monitored regulatory earnings, and continually determine potential ratemaking outcomes in the event of a rate case filing. I ensure that all required regulatory filings, including surcharges are submitted on a timely and accurate basis. I also am responsible for monitoring all electric utility rate filings to evaluate competitive impacts from rate design proposals.

Strategic Regulatory Solutions; 2003 -2007
Principal; Serving clients regarding revenue requirement and regulatory policy issues in the natural gas, electric and telecommunication sectors

Williams Energy Marketing and Trading; 2000-2003
Manager Regulatory Affairs; Monitored and researched a variety of state and federal electric regulatory issues. Participated in due diligence efforts in targeting investor owned electric utilities for full requirement power contracts. Researched key state and federal rules to identify potential advantages/disadvantages of entering a given market.

MCI WorldCom; 1999 - 2000

Manager, Wholesale Billing Resolution; Manage a group of professionals responsible for resolving Wholesale Billing Disputes greater than $50K. During my tenure, completed disputes increased by over 100%, rising to $150M per year.

Kansas Corporation Commission; 1984- 1999

Utilities Division Director - 1997 - 1999; Responsible for managing employees with the goal of providing timely, quality recommendations to the Commission covering all aspects of natural gas, telecommunications and electric utility regulation; respond to legislative inquiries as requested; sponsor expert witness testimony before the Commission on selected key regulatory issues; provide testimony before the Kansas legislature on behalf of the KCC regarding proposed utility legislation; manage a budget in excess of $2 Million; recruit professional staff; monitor trends, current issues and new legislation in all three major industries; address personnel issues as necessary to ensure that the goals of the agency are being met; negotiate and reach agreement where possible with utility personnel on major issues pending before the Commission including mergers and acquisitions; consult with attorneys on a daily basis to ensure that Utilities Division objectives are being met.

Asst. Division Director - 1996 - 1997; Perform duties as assigned by Division Director.

Chief of Accounting 1990 - 1995; Responsible for the direct supervision of 9 employees within the accounting section; areas of responsibility included providing expert witness testimony on a variety of revenue requirement topics; hired and provided hands-on training for new employees; coordinated and managed consulting contracts on major staff projects such as merger requests and rate increase proposals;

Managing Regulatory Auditor, Senior Auditor, Regulatory Auditor 1984 - 1990; Performed audits and analysis as directed; provided expert witness testimony on numerous occasions before the KCC; trained and directed less experienced auditors on-site during regulatory reviews.

Amoco Production Company 1982 - 1984

Accountant Responsible for revenue reporting and royalty payments for natural gas liquids at several large processing plants.

Education

- B.S.B.A. (Accounting) Central Missouri State University
- Passed CPA exam; (Oklahoma certificate # 7562) – Not a license to practice

PUBLIC

ATTACHMENT DD-1
CPAD Operations and Maintenance Expense

Chattanooga Gas Company
Calculation of Attrition Period Operations & Maintenance Expense

Dkt No. 18-00017
CPAD Workpaper
Attachment DD 9

			CPAD Adjustments							
		A/	B/	C/	D/	E/		F/	G/	H/
Line No.	Detail	CPAD Test Period FYE 12-31-17	Adjustment 1 - To Remove Incentive Comp.	Adjustment 2 - To Reflect Cash Basis Pension / OPEB	Adjustment 3 - To Remove Lobbying Costs	Adjustment 4 - To Reduce Corp Allocated Costs	CPAD Adjusted Test Period FYE 12-31-17	Adjustment 5 - To Reflect Rate Case Amortization Expense	Adjustment 6 - To Forecast Attrition Period Costs	CPAD Attrition Period FYE 12-31-19
1	Payroll Expense	$ 3,010,584	[redacted]							$ 2,983,448
2	Employee Benefits	758,528								$ 728,437
3	Benefits Capitalized	(97,884)								$ (103,075)
4	Fleet Services and Facilities Expense	781,488								$ 822,931
5	Outside Services	1,783,744								$ 1,878,336
6	Bad Debt Expenses	137,686								I/ $ 121,863
7	Sales Promotion Expense	51,966								$ 52,574
8	Customer Service and Account Expense	4,775								$ 4,831
9	Administrative and General Expenses	678,172								$ 829,853
10	Admin & Gen. Salaries & Exp. Capitalized	(66,180)								$ (69,690)
11	Other Distribution and Storage Expense	567,215								$ 597,294
12	AGL Service Company Allocations	4,457,091								$ 3,117,375
13	Total O&M Expense	$ 12,067,184								$ 10,964,177

A/ CPAD Workpaper, Attachment DD 9-13
B/ CPAD Workpaper, Attachment DD 4-1
C/ CPAD Workpaper, Attachment DD 4-2
D/ CPAD Workpaper, Attachment DD 4-3
E/ CPAD Workpaper, Attachment DD 4-4
F/ CPAD Workpaper, Attachment DD 4-5
G/ CPAD Workpaper, Attachment DD 4-6
H/ CPAD Workpaper, Attachments DD 9-1, 9-2, 9-3, 9-4, 9-5, 9-6, 9-7, 9-8, 9-9, 9-10, and 9-11
I/ CPAD Rate Base Workpaper RB-46-2.00.

Chattanooga Gas Company
Calculation of Test Period Operations and Maintenance Expenses

Dkt No. 18-00017
CPAD Workpaper
Attachment DD 9-13

Expense Classification	Company Test Period FYE 6-31-17	CPAD Test Period FYE 12-31-17	
Payroll Expense	$ 3,028,489	$ 3,010,584	A/
Employee Benefits	933,858	758,528	B/
Benefits Capitalized	(72,402)	(97,884)	C/
Fleet Services and Facilities Expense	803,695	781,488	D/
Outside Services	1,823,532	1,783,744	E/
Bad Debt Expense	129,715	137,686	F/
Sales Promotion Expense	34,077	51,966	G/
Customer Service and Account Expense	8,533	4,775	H/
Administrative and General Expenses	663,355	678,172	I/
Admin & Gen. Salaries & Exp. Capitalized	(73,550)	(66,180)	J/
Other Distribution and Storage Expense	735,624	567,215	K/
AGL Service Company Allocations	4,106,553	4,457,090	L/
Total O&M	**$ 12,121,478**	**$ 12,067,184**	

A/ CPAD Workpaper, Attachment DD 09-13.01
B/ CPAD Workpaper, Attachment DD 09-13.02
C/ CPAD Workpaper, Attachment DD 09-13.03
D/ CPAD Workpaper, Attachment DD 09-13.04
E/ CPAD Workpaper, Attachment DD 09-13.05
F/ CPAD Workpaper, Attachment DD 09-13.06
G/ CPAD Workpaper, Attachment DD 09-13.07
H/ CPAD Workpaper, Attachment DD 09-13.08
I/ CPAD Workpaper, Attachment DD 09-13.09
J/ CPAD Workpaper, Attachment DD 09-13.10
K/ CPAD Workpaper, Attachment DD 09-13.11
L/ CPAD Workpaper, Attachment DD 09-13.12

Chattanooga Gas Company
Adjustment to Remove Incentive Compensation

Dkt No. 18-00017
CPAD Workpaper
Attachment DD 4-1

	Sub Acct	Account Name		
CGC Direct Charged				
	670590	AIP Bonus	[redacted]	A/
	670591	LTI Awards - Other	[redacted]	A/
CGC Allocated				
	670590	AIP Bonus	[redacted]	B/
	670591	LTI Awards - Other	[redacted]	B/
Total Incentive Comp charged to O&M			[redacted]	

A/ CPAD Workpaper, Attachment DD 09-13.01
B/ CPAD Workpaper, Attachment DD 09-13.12

Chattanooga Gas Company
Adjustment to Remove Accrual Pension & OPEB Benefits

Dkt No. 18-00017
CPAD Workpaper
Attachment DD 4-2

CGC Direct Charged	Sub Acct	Account Name	[redacted]	
	670451	Non-Qualified Pension Plan	[redacted]	A/
	670450	Pensions	[redacted]	A/
	670503	Other Post Retirement Benefits	[redacted]	A/
	670512	Pensions-Capitalized	[redacted]	A/
		Cash Basis Pension Contrib.	[redacted]	C/
			[redacted]	
Allocated SERP			[redacted]	
	670451	Non-Qualified Pension Plan	[redacted]	B/
	670450	Pensions	[redacted]	B/
	670503	Other Post Retirement Benefits	[redacted]	B/
	670512	Pensions-Capitalized	[redacted]	B/
			[redacted]	
Total Adjustment			[redacted]	

A/ CPAD Workpaper, Attachment DD 09-13.02
B/ CPAD Workpaper, Attachment DD 09-13.12
C/ CPAD Discovery Request 1-308

Chattanooga Gas Company
Adjustment to Remove Lobbying/Govt Affairs Charges

Dkt No. 18-00017
CPAD Workpaper
Attachment DD 4-3

CGC Allocated

Ferc	Sub Acct	Account Name		
920	600120	Pay - A and G Salaries	[redacted]	A/
920	600201	Pay-Telecommuting	[redacted]	A/
926	670505	Flex Vacation Deductions	[redacted]	A/
926	670525	Miscellaneous Benefits	[redacted]	A/
920	670594	Other/Sales Bonusus	[redacted]	A/
926	670596	Prevenetive Care Incentives	[redacted]	A/
	Subtotal Lobbying/Governmental Affairs Charges		[redacted]	
	Fixed Compensation Benefit Rate		[redacted]	
	Benefit Costs		[redacted]	

CGC Allocated

Ferc	Sub Acct	Account Name		
923	672556	Allocated Legal Lobbying - SCS	[redacted]	B/
	Subtotal		[redacted]	
	Fixed Compensation Benefit Rate		[redacted]	
	Benefit Costs		[redacted]	

Total Labor Costs	[redacted]
Total Benefit Costs	[redacted]

CGC Allocated

Ferc	Sub Acct	Account Name		
930	670800	Lobbying Portion of Organization Dues	[redacted]	C/
		Lobbying Labor	[redacted]	
		Benefit Costs	[redacted]	
		Organization Dues	[redacted]	
		Grand Total Lobbying	[redacted]	

A/ CPAD Discovery Request 1-141 (CONFIDENTIAL)
B/ CPAD Discovery Request 1-119
C/ CPAD Discovery Request 1-154

Chattanooga Gas Company
Adjustment of Corporate Costs Allocation

Dkt No. 18-00017
CPAD Workpaper
Attachment DD 4-4

Detail	A/ CGC Allocation 2017	B/ CPAD Pro-Forma 2017
1Q	[redacted]	
2Q		
3Q		
4Q		
Average		
Composite Rate Charges		
Comp. Rate Charges/ Avg		
Com Rate Charges/Avg * CPAD 3 factor avg		
CPAD Allocation Adjustment (line 13-line 9)		

A/ CONFIDENTIAL Discovery Request CPAD-1-347h, CPAD-1-347i, CPAD-1-347j, CPAD-1-347k
B/ CPAD Workpaper, Attachment DD 4-4.1
C/ CPAD-1-347c 2017

WHN Consulting | RB-45-1.00
Chattanooga Gas Company | 6/9/18 12:44 PM
Analysis of Other Rate Base - Deferred Rate Case Summary

Month		Amortization	Deferred Balance	
September, 2018		[redacted]	[redacted]	A/
October		[redacted]	[redacted]	
November		[redacted]	[redacted]	
December		[redacted]	[redacted]	
January, 2019		[redacted]	[redacted]	
February		[redacted]	[redacted]	
March		[redacted]	[redacted]	
April		[redacted]	[redacted]	
May		[redacted]	[redacted]	
June	**Midpoint**	[redacted]	[redacted]	
July		[redacted]	[redacted]	
August		[redacted]	[redacted]	
September		[redacted]	[redacted]	
October		[redacted]	[redacted]	
November		[redacted]	[redacted]	
December		[redacted]	[redacted]	
	Attrition Year Amortization Expense	[redacted]	[redacted]	

A/ CPAD Rate Base Workpaper RB-45-2.00.

Chattanooga Gas Company
Calculation of Attrition Period CGC Operations and Maintenance Expense

Dkt No. 18-00017
CPAD Workpaper
Attachment DD 4-6

Detail	A/ CPAD Adjusted Test Period FYE 12-31-17	B/ Attrition Period Costs		CPAD Attrition Period FYE 12-31-19
Payroll Expense	[redacted]	[redacted]		$ 2,983,448
Employee Benefits	[redacted]	[redacted]		728,437
Benefits Capitalized	[redacted]	[redacted]		(103,075)
Fleet Services and Facilities Expense	[redacted]	[redacted]		822,931
Outside Services	[redacted]	[redacted]		1,878,336
Bad Debt Expenses	[redacted]	[redacted]	C/	121,863
Sales Promotion Expense	[redacted]	[redacted]		52,574
Customer Service and Account Expense	[redacted]	[redacted]		4,831
Administrative and General Expenses	[redacted]	[redacted]	D/	829,853
Admin & Gen. Salaries & Exp. Capitalized	[redacted]	[redacted]		(69,690)
Other Distribution and Storage Expense	[redacted]	[redacted]		597,294
AGL Service Company Allocations	[redacted]	[redacted]		3,117,375
Total O&M Expense	[redacted]	[redacted]		$ 10,964,177

A/ CPAD Workpaper, Attachment DD 9
B/ CPAD Workpaper, Attachments DD 9-1, 9-2, 9-3, 9-4, 9-5, 9-6, 9-7, 9-8, 9-9, 9-10, and 9-11
C/ CPAD Rate Base Workpaper RB-46-2.00.
D/ Includes CPAD Adjustment 5 to reflect amortization of rate case expense

Electronically Filed in TPUC Docket Room on January 10, 2020 at 1:54 p.m.

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE

PETITION OF NAVITAS TN NG,	**)**	
LLC FOR APPROVAL OF AN	**)**	**DOCKET NO. 19-00057**
ADJUSTMENT IN THE RATES,	**)**	
CHARGES, AND TARIFFS	**)**	

PRE-FILED DIRECT TESTIMONY OF

DAVID N. DITTEMORE

ON BEHALF OF THE TENNESSEE ATTORNEY GENERAL
CONSUMER ADVOCATE

January 10, 2020

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:	)	
	)	
PETITION OF NAVITAS TN NG, LLC FOR APPROVAL OF AN ADJUSTMENT IN THE RATES, CHARGES, AND TARIFFS	))))	**DOCKET NO. 19-00057**
	)	

AFFIDAVIT

I, David Dittemore on behalf of the Consumer Advocate Unit of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Unit.

David N. Dittemore

David N. Dittemore

Sworn to and subscribed before me
this 10th day of January, 2019.

Tiffany H Blackman
NOTARY PUBLIC

My commission expires: March 22, 2023

TIFFANY H. BLACKMAN
STATE OF TENNESSEE NOTARY PUBLIC
WILSON COUNTY
My Commission Expires MAR. 22, 2023

Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION FOR THE RECORD.

A1. My name is David N. Dittemore. My business address is Office of the Tennessee Attorney General, War Memorial Building, 301 6th Ave. North, Nashville, TN 37243. I am a Financial Analyst employed by the Consumer Advocate Unit of the Tennessee Attorney General's Office (Consumer Advocate).

Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND PROFESSIONAL EXPERIENCE.

A2. I received a Bachelor of Science Degree in Business Administration from the University of Central Missouri in 1982. I am a Certified Public Accountant licensed in the state of Oklahoma (#7562). I was previously employed by the Kansas Corporation Commission (KCC) in various capacities, including Managing Auditor, Chief Auditor, and Director of the Utilities Division. For approximately four years, I was self-employed as a Utility Regulatory Consultant representing primarily the KCC Staff in regulatory issues. I also participated in proceedings in Georgia and Vermont, evaluating issues involving electricity and telecommunications regulatory matters. Additionally, I performed a consulting engagement for Kansas Gas Service (KGS), my subsequent employer during this time frame. For eleven years I served as Manager and subsequently Director of Regulatory Affairs for KGS, the largest natural gas utility in Kansas, serving approximately 625,000 customers. KGS is a division of One Gas, a natural gas utility serving approximately two million customers in Kansas, Oklahoma, and Texas. I joined the Tennessee Attorney General's Office in September 2017 as a Financial Analyst.

Overall, I have thirty years' experience in the field of public utility regulation. I have presented testimony as an expert witness on many occasions. Attached as Exhibit DND-1 is a detailed overview of my background.

Q3. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION (TPUC)?

A3. Yes. I have submitted testimony in a number of TPUC Dockets.

Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A4. The purpose of my testimony is to support the overall revenue requirement recommendation of the Consumer Advocate Office. I also provide some background information concerning the financial status and size of Navitas TN and its parent and how this impacted our review, as well as some comments concerning the socioeconomic conditions within the area in which Navitas TN provides service. I will address the Company's proposed changes to its tariff and identify concerns I have with the lack of specific procedures for terminating service in the winter months. I sponsor several Rate Base, Revenue, and Operating Expense adjustments within the overall proposed revenue requirement. I also support the proposed Rate Design consistent with the Consumer Advocate's proposed revenue requirement.

Q5. WHAT IS THE OVERALL REVENUE REQUIREMENT YOU ARE SUPPORTING IN THIS CASE?

A5. The overall revenue increase proposed by the Consumer Advocate is $37,425, as shown on Schedule 1.

Q6. PROVIDE AN OVERVIEW OF THE SCHEDULES THE CONSUMER ADVOCATE IS SUPPORTING IN THIS CASE.

A6. As shown on page one of the Consumer Advocate's Exhibit, there are 15 supporting Schedules to the Consumer Advocate's position. Overall, these Schedules provide the support for the Consumer Advocate's proposed revenue deficiency of $37,425 during the Attrition Period.

Schedule 1 shows the results of the Consumer Advocate's review as compared to the filed position of the Company. The Company's filed position proposed a revenue deficiency of $127,764, while the results of the Consumer Advocate's review show a revenue deficiency of $37,425.

Schedule 2 shows the Consumer Advocate's proposed adjustments to Rate Base for the Attrition Period. For a more detailed summary of the Consumer Advocate's specific rate base adjustments, see Schedule 3.1

Schedule 3 shows the Consumer Advocate's and Company's proposed Rate Bases for the Attrition Period.

Schedule 3.1 illustrates in detail the Consumer Advocate's proposed Rate Base adjustments from the Test Period to the Attrition Period.

Schedule 4 shows the Consumer Advocate's calculation for Working Capital required for determining Rate Base during the Attrition Period.

Schedule 5 illustrates in detail the Consumer Advocate's adjustments to Attrition Period Depreciation and Amortization expense.

Schedule 6 provides a pro-forma comparative income statement during the Test Period and Attrition Period for both the Company and the Consumer Advocate, along with the proposed adjustments of both parties.

Schedule 6.1 provides both the Company's and Consumer Advocate's resulting pro-forma income statements at current rates during the Attrition period.

Schedule 7 provides both the Company's and Consumer Advocate's resulting Taxes other than Income Taxes for the Attrition Period.

Schedule 8 provides the Consumer Advocate's pro-forma income statement for the Attrition Period using the Consumer Advocate's adjusted expenses from Schedule 6 and the Revenue Deficiency identified in Exhibit 1.

Schedule 9 provides the Consumer Advocate's calculation of Attrition Period Gas Sales Revenue adjusted for weather and normalized volumes under the Company's current rate structure.

Schedule 9.1 provides a summary of the Consumer Advocate's adjustments to Test Period gas volumes used to arrive at the Consumer Advocate's Attrition Period Revenues and used in the Consumer Advocate's calculation of Attrition Period Income at current rates in Exhibit 6.

Schedule 10 provides the Consumer Advocate's calculation of the revenue conversion factor used in Schedule 1.

Schedule 11 provides the Consumer Advocate's proposed Rate of Return.

Schedule 12 provides the Consumer Advocate's proposed customer class revenue change for new rates.

Schedule 13 provides the Consumer Advocate's proposal for rate design.

Schedule 13.1 provides support for the Consumer Advocate's proposed rate design.

Q6. PROVIDE SOME INFORMATION ON THE SCOPE OF NAVITAS'S BUSINESS OPERATIONS AND HOW THIS IMPACTED THE CONSUMER ADVOCATE'S REVIEW.

A6. The Navitas organization is somewhat unique as a natural gas utility. It is very small compared with other natural gas utilities, both in Tennessee and nationwide. It also serves rural locales which may be perceived as less desirable for investment by larger investor-owned utilities from a financial perspective. It is also geographically diverse within the Company, serving customers in Oklahoma, Texas, Kentucky, and Tennessee. The small size, coupled with the geographic diversity, results in an inability to capitalize on economies of scale that other larger utilities enjoy. For example, while there is a serviceperson serving the Tennessee/Kentucky territory, occasionally an Operations Manager will travel from east-central Oklahoma to Tennessee to oversee operations. This is not intended to be critical of Navitas, but rather to point out the unique nature of the Company's Tennessee operations. The regional service-person responsible for day to day service in Tennessee likely has extensive knowledge of the system and customer base given the small geographic scope of the territory.

Q7. WHAT IS THE CUSTOMER BASE INCORPORATED INTO THIS RATE PROCEEDING?

A7. The overall billing determinants based upon 2018 data indicate 550 total customers. Thus, the customer base associated with this rate increase proposal is extremely small.[1]

Q8. HOW HAS THIS SMALL CUSTOMER BASE IMPACTED THE CONSUMER ADVOCATE'S REVIEW?

A8. In our review, we attempted to strike a balance between not requiring accounting and cost allocation methods, which would be extremely burdensome for the Company to adhere to going forward, with the understanding that due to the smaller customer base, materiality levels for rate case adjustments are necessarily much lower than they would normally be for those in an investor-owned utility rate proceeding.

Q9. DO YOU HAVE ANY INFORMATION ON THE ECONOMIC MAKEUP OF NAVITAS TN CUSTOMERS?

A9. Yes. Information retrieved from the U.S. Census Bureau indicates the following statistics within Campbell, Fentress, and Picket counties:

Median Household Income:	\$35,084 - \$41,004 (range among the three counties)
Per Capita Income:	\$19,013 - \$23,250
Percentage in Poverty:	16% - 21.6%

[1] Information provided in Navitas Response No. 1-23 indicates a total customer count of 410 in Tennessee and 127 in Kentucky based upon test period averages. Based upon other information provided in this case, I do not have significant confidence in the customer counts and therefore have placed reliance upon bills issued for purposes of computing pro-forma revenues.

Q10. WHAT CONCLUSIONS CAN BE DRAWN FROM THIS INFORMATION?

A10. The customers of Navitas TN will likely be significantly impacted by material increases in their natural gas bills. Based upon the data identified above, customers (as a whole) would have little excess in their household budgets to absorb significant cost increases.

Q11. WHAT IS THE PROPOSED INCREASE THE APPLICANT IS SEEKING?

A11. The Company is seeking an overall increase of $127,764, representing an overall increase in customer rates in excess of 25%.[2] This translates to a requested increase per customer of $232 per year. This amount is comprehensive and without distinction to the individual rate classes. The increase request of nearly $20/month per customer applicable to the Navitas TN customer base is extremely impactful.

Q12. WHAT IS DRIVING THE PROPOSED INCREASE?

A12. The Company is claiming a substantial increase in Rate Base from that included in the Settlement Agreement from its last rate case proceeding. However, as discussed below, I believe there is a major miscalculation of the Company's Rate Base and, instead of a significant increase since the last case, there in fact has been a significant decrease in Rate Base. In terms of the Consumer Advocate proposal, the revenue deficiency is driven from the last case exclusively by an increase in Operating Expenses.[3] The Rate Base growth underlying the Company's proposed 25% increase has simply not materialized.

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[2] Requested Increase of $127,764 divided by Pro-Forma revenue at existing rates, $503,026 equals a 25.4% request. Requested Increase of $127,764 divided by total customers of 550 equals an overall increase per customer of $232/year.

[3] The non-purchased gas expenses contained in the Settlement Agreement within the last case was $416,040, compared with the Consumer Advocate Pro-Forma Expense of $487,073, for a difference of $71,033, significantly greater than the Consumer Advocate's recommended revenue deficiency.